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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: March 6, 1967

SUBJECT: United States-Italian Aviation Negotiations, Washington, D. C.
Eighth Session (March 6, 1967; 3:00 p.m.)

PARTICIPANTS: See Appendix A

DEPARTMENT OF STATE A/CDC/MR
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Ambassador Capomazza: I think that this is in a way an important meeting because, you all know very well, we have been talking for many days with no practical results whatsoever. We have though, in my opinion, made a few constructive steps forward. One of them is to have this priority of route schedule discussion, which, although it has not proved so far to lead to practical results, it has kept us on a main highway which in the long run could bring us to a positive result. We have received four American documents on routes. While we appreciate the effort that the American delegation has done, we must also honestly confess, admit, that this has brought us no nearer to a conclusive point. It seems to me that this is because of two different approaches that our two delegations have towards the problem which has divided us. You have enjoyed the benefit of a very favorable treaty. You found in the elasticity of the formula "beyond" and naturally in the Bermuda principles which we subscribed in 1948, most of what you could hope and which is considered to be important to you. So now you are approaching these conversations with mostly one aim in mind which is naturally to maintain everything you have and expand it, and as you have said, for 20 years to come.

Four US Route documents have not helped

You have presented a picture of the great expansion that aviation will have in the next 20 years. You have also presented a program

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of expansion which roughly should cover the next 20 years. This is, of course, a complete, a very clever presentation [illegible]ally on your part. It almost looks as if you had [illegible]nced the treaty, because it was against your interests, and now you were trying to get the best out of it. Our approach has been different. We have suffered, we think, of inequality and imbalance of the former treaty. We are absolutely convinced of that. If we are wrong, please excuse us, but we believe it. We think that this imbalance has been recognized by you many times, especially in the most recent past and during our meeting in Rome and here. This inequality and imbalance of our 1948 agreement has, of course, been largely aggravated by the lack of determination of the points. Your proposal for beyond rights could cover, according to your interpretation, the whole world. You once got in trouble with France about this interpretation of beyond and you went to a tribunal in order to get an arbitration. The arbitration wasn't very favorable to your point of view because it did say there were limits to the interpretation of beyonds.

lack of point specification caused US-French arbitration

We have presented a route schedule which follows naturally, which indicates all the specified points that we would like to cover. We have, in doing so, followed the Christian maxim, the Christian rule of not doing to others what you would not like to be done to yourselves. So we have been very honest and Christian in our presentation. Our presentation can be a bit hard for you to swallow. It is a presentation which is perfectly in line with the logic which brought us to the denunciation of the treaty, that is the correction of the imbalance of the treaty. You are now aiming at considering for the next 20 years the full use of the most coveted southern route which is at the disposal of any civil aviation in the world. For us it is a little bit difficult to offer a helping hand for this colossal operation. You have listed countries like Australia, a route through Africa, which we must incidentally reject on account of the large indetermination and because they step on some of our interests. My friend, Dr. Caruso, will say something also about this particular subject. But we have some doubts on the wisdom of refusing these propositions outright. Yet we would be encouraged to refuse them by the demoralizing example that you are giving us. One would think that the American delegation has a very poor opinion of our brains, of our intelligence of being negotiators for our country. If you want to bring home this colossal deal, you should also be ready as any good business man to put up a fair price; but

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nothing of the kind. We find, on the contrary, a very mercantile attitude which is very discouraging. So we have no other recourse than to follow the same attitude. We have in the meantime tried to move out of this sandstone bank on which we have been staying for the last few days. We have prepared a little document which I am going to read and which I will have distributed to you. Following your rule, we have called it Italian Document 4. (See Appendix B.) I will read it to you: (He reads the document.) I think it would be appropriate for me to stop here. If you think it is the right moment, I would ask Mr. Caruso to add a few words to what I have already said, speaking about these various routes, and what we think could be a way to ascertain their value.

Route exchange proposed by Italy

Mr. Caruso: Ambassador Capomazza has made a route proposal which for Italy is based on Italian Document #2 and for the United States on its present operations to and through Italy plus Hong Kong and Bangkok and possible consideration of Tokyo. I would like to try to use the simplest terms without going into figures to give a comparison of routes, the route schedule proposed by the Italians and the routes that would emerge from the operations of American carriers, the present route schedules. This reaches the conclusion that based on the proposal made by the Ambassador, in the Italian point of view, that would be an equitable and just exchange. As an example, I would like to discuss first of all the third and fourth freedom rights, the fifth freedom rights through intermediate stops, and the fifth freedom rights with beyond stops, and then an evaluation of worldwide service that could be operated by both sides on the proposal made by the Ambassador.

Explanation of Italian proposal

With respect to third and fourth freedom, the US delegation has requested only two stops in Italy: Rome and Milan. The Italian delegation has requested from the United States seven or eight stops, with an alternative of Dallas or Houston. A superficial examination of these proposals, would seem to be that it was two points for the United States and eight for Italy. This would seem to be in favor of the United States in terms of the relative value of each of the points involved. But it is a traditional principle that carriers can land in their own territory from and to any given point. This is, of course, only a principle, but is not a right. The right to land in one's own territory in order to be exercised by a carrier must be recognized in the agreement, and through concessions made within an air agreement. The absolute right

Double tracking justified

Right to depart from any point in homeland must be stated in agreement

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of operating stops on this territory exists only if the other party with which negotiations have been held and with which an agreement exists recognizes this right. The other party to the agreement will recognize this right through an evaluation of the whole route picture. The operating rights from one's territory do not exist as an absolute right as is demonstrated by recent cases under the agreement with the UK.

This right from the standpoint of the Italian delegation may be recognized but it should be a part of a general balanced picture under the agreement. That is to say, the route schedule on the other side should be equivalent to the route schedule granted to the other party. In Italy there have been controversies regarding these principles with Austria and Belgium. Italy gave more points in Italy to those countries than Italy got in their territories. Italy in the beginning was reluctant to grant these rights. However, after careful consideration Italy came to the conclusion that it should grant to the Austrian carrier and to the Belgian carrier the same rights as those enjoyed by the Italian carrier. In the case of Belgium, Italy went even beyond to grant one more stop, operating rights for a route from Brussels to Naples in the public interest in order that Naples would have a line to Belgium as well.

Italy has unbalanced agreements with Austria and Belgium

Italy vis-a-vis the United States finds itself to be in a different situation. The United States has requested two stops in Italy and Italy has requested eight stops in the United States. The Italian delegation believes that, if an American carrier has the right to operate certain stops in its own territory, these rights cannot be denied to the Italian carrier. The United States is the greatest advocate of free competition in the field of aviation. The United States in its aviation grants follows a very basic principle, that is, the public interest. Air transport services essentially and basically should be responsive to the demands of the public. In the views of the Italian delegation, grants made to the Italian carrier to operate traffic over all these stops that are operated by the American carriers cannot be denied, based upon the very principles of private enterprise and free competition upon which the operations devoted to public services in the United States are founded. These rights should be granted from the standpoint of promoting civil aviation; not from a narrow view but from the larger viewpoint of free competition of which the greatest advocate is the United States. If we allow American carriers to operate from various points in American

Double-tracking would balance US-Italy agreement

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territory, then these rights should be based on equity and this is the basis we would like to use in all our air agreements. This would be based on the duty of the two contracting parties to have their carriers grant one another equal opportunities. I don't see how this principle can very well be denied, when Italy is limiting itself to asking for seven or eight points over a territory of such vastness as the United States. When Italy grants to the United States the right to operate its routes to Italy departing from any point on this huge vast territory, I think that the status or position of third and fourth freedom traffic still gives the United States the advantage. In other words, if we evaluate third and fourth freedom traffic to be enjoyed by the Italian carrier and third and fourth freedom carried by the American airlines the advantage would be in favor of the latter and not in favor of the Italian carrier.

Even with double-tracking US would have the advantage

The American delegation has asked us for two stops only, Rome and Milan. I think that under the denounced agreement the United States had actually four traffic stops: Rome, Milan, Turin and Naples. The Naples stop was at one time exercised by an American airline. The Turin stop has not been operated up to now. One would be inclined to ask why the American delegation, which in the beginning presented not only a route schedule but a declaration about route schedules, and subsequently changed this declaration into a schedule which took in vast geographic bands, and still later presented route patterns based on grants made by the CAB, and still later presented an indeterminate route schedule, I ask why in Italian territory, which is of basic interest, you have limited your request to two points. You have also asked for a stop in Milan and in Rome on a separate basis, although your companies do not operate like that. Perhaps this type of limits had a purpose, and that was to limit the third and fourth freedom traffic requested by Italy. We can't help but raise some of these questions, which are motivated by some of your statements. Your statements undoubtedly have a basis, but if you want to compare the Americans' market in the United States with markets of the size of the Italian one, if you wanted to parallel markets of these sizes, then you emphasize the size of the US market. But the market is not an end in and of itself. This market has need of an outlet and one of the outlets for this enormous air transport market is Italy itself.

US request for only two points in Italy has tactical reason

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Yesterday we spent the day in Chicago. As we came in to the Chicago airport we were impressed by the vastness of facilities and we went through a little soul searching. Could we justifiably compare Italian aviation with American aviation. After some consideration we did come back to our original consideration. This is an enormous market, which is great in scope from the domestic standpoint and the international standpoint. But this market cannot be complete in itself. Its large outlet is Italy. It is like the aircraft industry. The US is the largest producer of aircraft. They are used for domestic and international service. The use of these aircraft for international service implies the present expansion of services themselves on a worldwide basis.

Even large US markets need outlet

I would like to go back to our route schedule. We believe that an evaluation without going into figures, an analysis of third and fourth freedom traffic, doesn't show Italy to have an advantage. It gives the advantage to the United States, whose carriers have the right to operate from anywhere in their territory.

You have observed that the intermediate stops do not have the same value for Italy as they have for the United States. The United States says that intermediate stops which are used by the Italian carrier involve longer flying distance whereas the intermediate stops used by the United States take in shorter distances. Of course, we can reply to these points by saying that whereas the Italian carrier operates three intermediate stops, plus one also contemplated in Paris, on the other hand the US carrier is enjoying or using eight particular intermediate stops. Therefore, some form of compensation from the standpoint of the assessment would involve the number of stops.

Intermediate rights are balanced

I want to say that from our standpoint, this evaluation, this assessment, must take into account other principles. In other words, the possibility for the US carrier to operate in the direction of the Italian territory going through eight intermediate stops, - eight intermediate stops which include the - greatest population centers of Western Europe - permits the US carriers to find themselves in a situation where they can provide very flexible services. In this connection I want to explain that the great majority of US citizens always have the possibility of picking up that same carrier at any of these intermediate stops. This possibility of providing a variety of services gives flexibility to the operations of the US carriers. That is exactly one of the essential characteristics of US air

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services. A characteristic that the United States has requested from Italy in formulating its route schedule. The number of intermediate stops for the United States can compensate for the length of run of Italian intermediates and of a smaller number of stops in Italy. So we have a rational approach which gives to the US carriers tremendous possibilities to obtain traffic. All these has to be taken into consideration. The essential element underlying an evaluation is equivalence in the route exchange.

I would like to take up stops in points beyond. With regard to stops beyond Italy, the situation is quite different. Italy has requested only three stops, Panama, Mexico and Tokyo. You have asked for a series of traditional stops in the Middle and Far East. In order to evaluate these stops I should adopt the same criteria which has already been described for the intermediate stops. The large number of stops makes it possible to have a flexible operation, which gives them a very high value. This value is not below the value of the three stops requested by the Italian delegation. I have been in Italy in civil aviation for many years. I have had contacts with all the representatives of the carriers that operate to Italy and I know the great value which has always been attributed by a US carrier to the stop at Rome. The Ambassador has stressed the great number of frequencies the US carriers have at Rome. The US carriers attach a great deal of importance to Rome, because this Rome stop is a key stop for them, more important than any other stop for the US carriers in Europe. The stop in Rome for US carriers is a gateway to the Middle and Far East as far as US carriers are concerned. As for a round-the-world trip, the head of the Italian delegation, when he stated his proposal, said that he was ready to examine the granting of stops at Bangkok and Hong Kong and to add the stop at Tokyo. Adding these stops would enable the US carriers to close the loop around the world.

US would have advantage on beyond points

I have endeavored to present a series of considerations leading to a possible evaluation of the proposal made by the Ambassador. These are evaluations, considerations, that are being submitted and presented by the Italian delegation to be carefully thought over and looked at by the US delegation. I would like to ask, in conclusion, how much it is worth to the US carriers, how much are Italy and Italian stops worth to the US carriers, with Rome and Milan fitting into the pattern of US transportation on a worldwide scale.

(Brief intermission)

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Mr. Loy: Your statements seem to the US delegation to contain both some hope and some disappointment. The hope is kindled because in a sense I think this afternoon we have come closer to talking about route exchanges and what makes for a good route exchange than we have so far. That is encouraging. On the other hand, the content of what we have heard is disappointing. The more we hear about how to go about putting together a fair route exchange, the more convinced we become that we have got to start off on an agreed understanding as to how it can work. Even though we have been at this two weeks, we are still struggling to find that, and the proposals which are contained in your document 4 and which you presented to us seem to us to have some very serious flaws in helping us arrive at a basis. We said earlier that, after considerable searching for the best way to go about this, we have come to the conclusion that among the tests that we have to meet in making a route exchange is to find an equivalence in value. That has nothing to do with the numbers of points. In an indirect way, perhaps you recognize that in these cases that Dr. Caruso mentioned in your dealings with Belgium and Austraia. They involve a lack of numerical equivalence, but presumably they were satisfactory to each side. But we don't care about that. We don't consider ourselves to be either Belgium or Austria. So I don't think we have found a basis yet.

US welcomes route discussion, but it must be based on economic values

There are some things that Dr. Caruso said that just won't work, for example, that in some way or another we ought to perhaps match the number of intermediates that we have asked for in our last route document for the number you have asked for in your document 2. Do you really believe there is some sort of sense in our trading the right to serve some limited amount of fifth freedom traffic from Nice to Rome in exchange for your right to carry unlimited traffic between Miami and Rome? That is going to end us nowhere, and we ought to get off it. If we don't get a basis, we don't get a route exchange and an agreement. You have proposed some sort of trade, and while it is out of the question, we are talking in the right direction. The kind of content in your trade is out of the question. There was an overtone in the comments that I think also if we are going to be constructive we ought to put a stop to right now. And that is some idea that there is logic or advantage in a route exchange in which the United States designates the points in its territory that its carriers will serve on their route to Italy. Did I understand that correctly?

Value of intermediate points is not equal

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Mr. Caruso: You have said that we cannot have an exchange or trade fifth freedom Nice-to-Rome for a right of third freedom traffic Miami-to-Rome. I did not say that. What I stated was different. I said that there is no right for a carrier of a given country to depart from any point whatsoever on its own territory, if such a right is not recognized in the air agreement. I will use the example in this connection that Mr. Loy used. If a US carrier has the right to provide service between Miami and Rome, we consider that an Italian carrier should have in this connection the right to provide service from Rome to Miami. I made a reference to the example given by Mr. Loy but we can take any number of examples. For instance, a US service that would originate in Philadelphia to Rome, presupposes the right for an Italian carrier to have a correlated service from Rome to Philadelphia on a reciprocal basis.

Mr. Loy: Yes, you made yourself quite clear. I won't question the legal point that you made that there is no right unless there is an agreement. But I will state rather categorically that we are not interested in an arrangement in which the United States would commit itself to start services only in designated points, and we wouldn't expect that from Italy either. We would expect that if the Italian carrier wishes to originate services in Florence and anywhere else in Italy that is entirely within its province. We would consider that to be quite acceptable in principle. We have one agreement that is different, which you have mentioned, with the UK. I want to point out that the UK is also a worldwide nation. The UK had points not only in England but also in Nigeria, Hong Kong, Bermuda, etc. It is an agreement which is even today simply in that sense totally different from the situation we are facing. So that suggestions seems to be unacceptable. We concluded that agreement in a very special situation, and I don't think we are going to do that again. We are not asking where your services start.

Right to depart from any point in homeland is reciprocal

Still on the question of the basis of our exchange, you have indicated that we are asking for a colossal deal, and that our proposal would create more imbalance than has already existed. It seems to me that if we are to make progress, we have got to know what you mean by either a colossal deal or more particularly, by more imbalance than has already existed. We don't know what you think the imbalance is or was, if indeed there was one. Perhaps one way to proceed would be for you to tell us that and tell us how you arrived at that. To approach this matter another way, in one sense the document that you have given us, as we see

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it, suggests that in exchange for essentially what we serve now the Italian side would obtain rights which are vastly different, greater from the ones that they now enjoy. That seems to be the meaning of your Document 4.

It is true that you are suggesting that we would be permitted to serve Hong Kong and Bangkok with traffic rights. I have to say that that hits us a little badly. It is our position that it is within your sovereign right to say that this agreement is dead as of May 30. It is also our opinion that until May 30 this agreement is alive. It is our view, which we need not discuss now, that refusal to permit US carriers to serve Hong Kong or Bangkok constitutes a breach of the existing agreement. Now, we have responded somewhat mildly to that breach. I don't expect to get applause from that. We have said it is a breach; we understand why it is breached but we object to it. We think the Government of Italy should live up to its agreement, but the idea that in some way that breach has turned into a bargaining advantage, that in some way or another Bangkok and Hong Kong are now treated as a new right, not within the scope of what is presently served, hits us somewhat badly. Even by this standard of points presently served by the United States, we would not consider Hong Kong and Bangkok legitimately in the category of new points. We consider them to be points already served.

Italian denial of Hong Kong and Bangkok rights violates agreement

Looked at in that way, this means that you are saying to us that in exchange for what we are now serving plus Tokyo, Italy will get what is in your document 2. I submit to you that that implies on your part that the agreement has been imbalanced to date to an extent which is absolutely staggering. If that is your view I think we must insist on getting some notion as to what you consider the imbalance to have been and how it arose. We can't take seriously that it takes your new route proposal to correct the imbalance that you say exists.

Italy should explain alleged imbalance

Dr. Caruso very correctly assesses the US interest in maintaining service to Italy, and that our carriers find Italy a desirable and very important spot in Europe. I just don't want the overall picture to be distorted, however. In terms of passenger revenues the US-Italy market provided for Pan Am and TWA an average of 4.4 percent of their total system revenues in 1965. The North Atlantic service for Alitalia, which includes some Canada revenues but predominantly the USA, accounted for some 25 percent of Alitalia's system revenues. I don't think that point ought to be lost sight of.

Importance of North Atlantic services to Alitalia

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My conclusion is essentially this. First, we are still looking for a basis for a route exchange. We find that counting numbers of intermediate points, for example, isn't the way to achieve it. The second point is that Italy's proposal, as contained in Document 4, is based on an assumption of an imbalance which apparently is absolutely staggering. I just think we ought to know what you think that imbalance is, that would make the kind of trade you are proposing sensible in terms of achieving an equal trade. We would suggest that you address yourselves to these two points: particularly the latter point, the question of the present imbalance which you find exists. If you could describe it with figures, I think that would be a useful thing to do tomorrow.

We also would like to have any further views you could give us what basis we are working on when we try to establish a route exchange. Is it value, number of points, visual reciprocity? Maybe you have some comments on that.

Ambassador Capomazza: I hope that by discussing these various things we are moving a little bit. You have said many things and I want to answer them only in a very limited way. More or less, what you have said in your intervention could be broken down to two points. You ask how we base our route exchange, is it a material exchange or visual, finance, etc., and it is quite evident that your preferences are for a financial basis. Without refusing to give you some figures, perhaps we may when we are a little bit more advanced in our conversations, I can say that, for instance, the old agreement, which is dead, said in Section 5 that there shall be a fair and equal opportunity for the carriers of the contracting parties to operate on the routes. I think that reciprocity and equal opportunity for the carriers should be the base on which the new agreement should be constructed. All countries trade on a reciprocity basis and on equal opportunity. Trade inside the United States is based on equal opportunity. So we think that Alitalia has to have this equal opportunity especially that since, as we say, our market is an important market. I should say that assuming that your figures are correct, these percentage figures (4.4 percent for American carriers and 25 percent for Alitalia) those figures don't really disturb me at all. The difference, which appears to be apparently much larger for Alitalia than for Pan Am and TWA should be considered in terms of absolute figures. I am not maintaining that we have to assume the absolute figures as a base. But it would be interesting to look at absolute figures and not only these relative percentages.

Route basis should be reciprocity and equal opportunity

Respective benefits should be considered on basis absolute figures

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Mr. Loy: You have given us your estimate of our absolute figures for 1965. We would be interested to have your figures for Alitalia for that year. Maybe that would accomplish what you suggest.

Ambassador Capomazza: I would have to say that I don't know myself. We will give them to you. I have told you which is the base on which we would like to proceed. You also say that we are here to achieve an equal trade and this in a way is an extension of the first point. You propose to ask us what we think is the imbalance. It is always the same thing. We don't think we have to achieve an equal trade. Each partner can be capable or able to make a better trade. It is a bit difficult to say we are trading on an equal base, and we have to give you fifty because you give us fifty. We don't think this idea of an equal trade is a very constructive way to approach an agreement.

When we said that you were trying to make a colossal deal by the presentation of your route schedule 4, it is quite understandable. You decided to develop up to the maximum of the known world, the notion of beyonds which was in the old treaty. You used all the points beyond Italy not only in direct line but also to extremely valuable southern routes toward Australia and towards Africa. These are two routes in which you will find us very intransigent. The possibility for the airlines of the United States to operate through Italy is a colossal opportunity. We think that we ought to have a balance and you recognize it yourself. You recognize that the old agreement is dead. But didn't you promise us Montreal to Los Angeles? Why did you give it to us? You gave it because you had to give it. What have we asked for now that is more than we already have? If you think well of our requests on the basis of this imbalance, on the base of equal opportunity, on the base of these Southern routes, I think you have there the ways and means to find an agreement with us.

US route request covers entire world

You also said that the agreement with England was made when England was a great empire. You refer to the first Bermuda agreement which you made with England. What about the last one of last year that you have made again with England. We are not asking you to evaluate what you gave England and give us the same evaluation. I ask you to follow the same methodology and we don't see why it should not be followed also with Italy. This would solve the problems of the points inside the United

Reference to 1966 US-UK agreement

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States. We see that those points are listed very carefully in this agreement with England. This may not be the right moment when we can discuss that. There are many things in the agreement that are interesting and many things that are not in that agreement that are just as interesting.

I don't think our position is so desperate that we have to go to our governments and report there is no way to reach an agreement. We can say that we have now two documents: the routes that you actually exercise and operate in Italy and the addition that we have offered, and our Document No. 2. And we can say that we have the kind of methodological line which could be followed in order to arrive at an agreement. It seems to me that the agreement could be nearer than we think. But we will think of those figures and give them to you.

Mr. Loy: Just a couple of points. Maybe as a way of getting started, you have indicated that you expect to be transigent about two of the specific routings that we have included in our request, one going to Africa and the other to Australia. If for no other purposes than for purposes of methodology in approach we would be interested in knowing how you evaluate those two rights which you say are so enormous and so difficult for you to concede. I think that would help get us started. We can then see why it is so difficult, and relate it to some of the rights you requested of us.

Request for Italian evaluation of Africa and Australia routes

Second, I am a little disappointed about the discussion which you initiated today concerning the pattern of the UK agreement you would like to see incorporated. I feel that we have had great difficulty in going forward and this is a step back. In your original route proposal, your Document 2, that concept was not incorporated and we don't expect it to be incorporated. I think of that as a new idea, not a good one and a step backwards.

A third point: We have got to decide whether the old agreement is dead or not. It is my understanding that the reason you have found the present agreement intolerable is because you do not have the right to serve Los Angeles or the right to determine a point beyond New York to serve. If that is the case, then we understand that. But we can't at the same time take the position that these are in the Italian route schedule and that, therefore,

Is present agreement dead or not?

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we start from that base. We have some difficulty in dealing with that duality of approach. For reasons which are historical, and are good or bad, these points are not in the Italian route description and you have indicated that that is one of the factors that have brought us to this point. Let us treat it that way or let us treat it the other way, that there are no points; that there is nothing on the table. But I don't think we can get very far if we take this simultaneously.

To relate what I have just said to what you have said, we are and we have been prepared to say that the historical agreement, the one that is in operation now, which excludes the routes to Los Angeles and beyond New York, is one which, in the context of an overall agreement, we are prepared to improve upon. We have said that here and we have said it previously. That is one of the reasons why it seems to us so desirable to get from you some notion of the magnitude of the imbalance which you tell us is created by the historical situation which exists today. We aren't even arguing that there is no imbalance. We are saying show us what it is and see if we can deal with it. But we do note that, while you have made statements about the imbalance, the only correction you have made is contained in your proposal No. 2. The notion that that proposal corrects an existing imbalance seemsto be out of the question. Perhaps you could enlighten us some more on what you consider to be the imbalance which must be corrected.

US prepared to improve on present agreement

Ambassador Capomazza: Perhaps I can say a few words to clarify this point. First, you said in the beginning that I had used the word "intransigent" on your request to the two southern routes, Africa and Australia. For the record of this meeting, which is now fifteen days old, I would like to point out that this is the first time that I have used the word intransigent, while I have been hearing this word not less than four or five times from you. This is point No. 1. Point No. 2: I would like to have from you some more convincing explanations why the precedent established by the UK-US agreement is out of the question for Italy. It would be interesting if you would elaborate on this idea of why it is out of the question. You have noted that I admit and recognize that Great Britain has naturally more worldwide interests than Italy; so it is understandable that when we think of that agreement we don't think of the same notion of quantity but other notions. Third point: You said that we cannot have a new agreement and we cannot refer every now and then to the old one. The point is

US-UK type route exchange could be used with Italy

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as usual very cleverly put. Apparently I should be offguard and find myself in a very difficult position on answering this. In reality, we are all children of our past, unfortunately, and we cannot ourselves completely change or dispute our past. Besides we are also children of such people as da Vinci. We have a broad mind and many approaches to things. We think that the old treaty is dead, but naturally the moment we say it is dead this does not mean then that we do not have the right to refer to it any more. It is dead because we could not cash in on it. So we can perfectly well use the double approach, as a practical way to a difficult solution. So when you say that you are ready to improve the situation of this dead agreement, beyond New York and Los Angeles, that is, of course, an approach. Whether this approach is on a dead body or whether it is simply historical, it is up to you. Whatever it is, if you would elaborate a little more on how this could be done, that would bring us a little closer to an understanding than we are today.

Present agreement is dead but is useful basis

Mr. Loy: May I just add that the improvement that I referred to was obviously in the context of the old agreement, including on the US side, the old route schedule. If you are saying that created an imbalance then we are prepared to consider that. But that is the context on which my remark was made.

We are just trying to figure out how to proceed tomorrow. You have asked us for some more clarification on why the UK agreement is not a satisfactory precedent for you. I don't know how much more we will be able to say, but we will address ourselves to that. If I understand correctly you have indicated that you will be able to give us some notion of the imbalance of the financial revenues which we talked about. We have also asked, and hope you would be able to speak to the question of how your document redresses that imbalance. We would also like, if possible, some evaluation of the two beyond Rome routes which you indicated were so difficult. We will certainly be studying this document 4 and maybe that may give us enough to make some progress tomorrow.

Ambassador Capomazza: Let us leave it at that and meet again tomorrow.

The meeting was adjourned at 5:45 p.m.

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UNITED STATES - ITALY NEGOTIATIONS
FEB. - MARCH 1967
ATTENDANCE RECORD

	(1) MON. FEB. 20	(2) TUES. FEB. 21	(3) THURS. FEB. 23	(4) FRI. FEB. 24	(5) MON. FEB. 27	(6) WED. MAR. 1	(7) FRI. MAR. 3	(8) MON. MAR. 6	(9) TUES. MAR. 7	(10) WED. MAR. 8
LAY	X	X	X	X	X	X	X	X	X	X
MERRIAM	X	X	X	X	X	X	X	X	X	X
HANSON		X	X	X	X	X	X	X	X	X
SUMMER	X	X	X LATE	X	X LATE	X LATE		X LATE		X LATE
BLAKE	X	X	X	X	X LATE	X LATE	X	X LATE	X	X
RODRIGUEZ	X	X	X	X	X	X	X	X	X	X
PRIME	X	X	X	X	X LATE	X	X	X	X	X
SCIENDIA	X	X	X	X	X	X	X	X	X	X
BARON			X							X
MENDELSOHN						X				
LANDRY	X	X	X	X	X	X	X	X	X	X

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	(1) [illegible]	(2) [illegible]	(3) [illegible]	(4) [illegible]	(5) [illegible]	(6) WED. MAR. 1	(7) FRI. MAR. 3	(8) MON. MAR. 6	(9) TUES. MAR. 7	(10) WED. MAR. 8
[illegible]	X	X	X	X	X	X	X	X	X	X
[illegible]	X	X	X	X						
[illegible]	X	X	X	X	X	X	X	X	X	X
[illegible]	X	X	X	X	X	X				
[illegible]	X	X	X	X	X	X	X	X	X	X
[illegible]	X	X	X	X	X	X	X	X	X	
[illegible]	X	X	X	X	X	X	X	X	X	X
[illegible]	X	X	X			X	X	X	X	X
[illegible]				X	X					
[illegible]	X	X	X	X	X	X	X	X	X	X
[illegible]	X	X	X	X	X	X	X	X	X	X
[illegible]	X	X	X	X	X	X	X	X	X	X

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Appendix B

Italian Document No. 4

The Italian delegation has carefully examined US route schedules contained in US document N. 4. Following this examination the Italian delegation deems said document unsatisfactory for the following reasons:

1 - "Points" continue nto be unspecified. This undetermination of US route schedules makes it impossible to evaluate US requests.

2 - The number of countries toward which rights are being requested, greatly exceeds the number of countries included in present USA operational services between the USA/Italy/and beyond.

US requests tend to modify completely the scope and nature of the present talks because, instead of balancing a situation that, from the Italian point of view - and also, on several occasions, from the US point of view - has been recognized as unfavorable to Italy, they would ultimately aggravate the existing unbalance.

In order to avoid a further continuation of unfruitful exchanges of views, the Italian delegation believes that it is appropriate to propose to the US delegation that the discussions be continued along the following lines:

- on the Italian side: routes requested in Italian document N. 2;

- on the US side: a route schedule comprising all US routes operated at present to and beyond Italy

Furthermore, the Italian delegation is willing to concede the two points at present serviced by US carriers without traffic rights, i.e., Hong Kong and Bangkok; and also to consider a new point (Tokyo) that would allow the United States to effectuate an around-the-world service via Italy. This last possibility should obviously find an analogous grant in favour of the Italian carrier.